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The New Business of Business Leaders: Performance Management and Compensation

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Introduction

Do you lead a high-performance team? Are you sure? Experienced leaders know that busy teams are not always productive teams, let alone strategically focused. High-performance teams always drive productivity while also improving bottom-line results and moving strategic initiatives forward in measurable ways.

In today's do-more-with-less economy, it's more important than ever to develop high-performance teams. The key is to maximize team impact through the effective use of each person's unique talents to achieve strategic business objectives. Savvy leaders know that this is easier said than done—and it's not getting any easier. The combination of globalization, a multigenerational workforce, budget constraints, and increasing rates of change continue to escalate the complexity of business and raise the importance of high-performance teams— even as they expand the challenges associated with building them.

When faced with these challenges, it is difficult to know whether you are maximizing the impact of your team in support of strategic objectives and overall company success. But with the right talent intelligence solutions, you can find out. More importantly, you will gain the data and insights you need to make better business decisions and create a high-performance environment.

This paper is one in a five-part series that explores your role as a business leader in driving talent management functions, and examines the specific tools and approaches that will make you successful. Other papers in the series cover talent management, hiring and onboarding, learning and development, and retaining and growing talent. The focus of this paper is performance management and compensation.

Achieving High Performance Amid Complexity

When the Center for High Performance recently asked survey respondents if they worked for a high-performance team or organization, the majority answered yes.[1] The majority also responded that they did not have metrics or data to support this claim. This disconnect illustrates a common leadership challenge—overcoming the fallacy that activity equals productivity.

In the simpler business world of 15 or 20 years ago, an increase in activity might have meant at least a moderate increase in productivity. However, according to a study by The Boston Consulting Group (BCG), business complexity has increased between 50 percent and 350 percent over the last 15 years.[2] The last thing a leader wants is a team spinning its wheels rapidly and getting nowhere—or even moving backward.

Your Company's Biggest Performance Lever: You

Performance management is what you do every day. It is the heart and soul of managing people, and it involves goal planning and tracking, performance assessment, ongoing coaching, and reward and recognition activities. Teams that focus on performance management have been shown to generate as much as 30 percent more revenue per full-time employee than average teams.[3] As a line-of-business leader, you are the primary lever that can improve organizational performance. Through improved goal alignment and measurement, more proactive performance reviews, and improved compensation and reward management, you can dramatically impact your organization's bottom line. You can also boost the engagement and emotional health of your team members and showcase your skills as a leader.

Goal Alignment: Challenges and Solutions

Establishing, aligning, and communicating employee goals are the foundational tools of management, and yet recent surveys have revealed that

- Only 29 percent of companies create individual goals aligned to the organization[4]

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[1] Center for High Performance, "High-Performance Research," centerforhighperformance.com/about/high-performance-research, 2012.

[2] Tim Sullivan, "Embracing Complexity," *Harvard Business Review,* September 2011.

[3] Mark E. Van Buren and Jon M. Werner, "High Performance Work Systems" *Business and Economic Review,* October-November-December 1996.

[4] Bersin & Associates, "High Impact Talent Management research" and "High Impact Performance Management Research," 2006 and 2007.

- A full 52 percent of midlevel managers and 74 percent of lower-level employees perceive the linkage between individual goals and corporate goals as very weak[5]

- Up to 50 percent of employee time is spent working toward nonstrategic objectives[6]

With the constraints on your current resources, it is critical to effectively communicate, align, and translate company goals for your team to ensure that they are working on the highest-value activities.

It's also essential that you and your fellow business leaders have real-time visibility into organizational goals, particularly in dynamic environments where those goals might change frequently. Advanced performance management solutions can enable this visibility while also providing insights and decision support tools to help you manage team and individual goal progress more effectively.

As a line-of-business leader, you play a crucial role in all stages of the goal-setting process, which is the foundation for effective performance management. Central to this process are tools that help your team understand its purpose and help you make better data-driven decisions regarding your talent and their goals.

Translate Corporate Strategy into Individual Goals

Senior management articulates corporate strategy and sets the highest-level business goals, which also define their desired results. As a line-of-business leader, you are the critical conduit for communicating these goals to your team and connecting their activities to the larger organizational objectives.

The connection between business objectives and individual goals is a weak point in most goal planning processes. Research by University of Virginia management professor Rob Cross has shown that managers can identify the best talent for a particular initiative only approximately 50 percent of the time.[7] The sad reality is that most managers don't know their teams well enough to effectively utilize their strengths. Though some of the blame can be assigned to the managers themselves, it's also a systems challenge. A recent study found that fewer than 25 percent of leaders have access to rich talent profiles.[8]

As you translate organizational goals into individual goals for your team, it's critical that you have access to complete talent profiles that include not just employee work history and assignments with your company but with all previous companies; not just their current skills and competencies but all skills and competencies, including those they have developed outside of work; and not just current

[5] WorldatWork and Sibson Consulting, "The State of Performance Management," July 2007.

[6] FranklinCovey, Executive Quotient Survey.

[7] The Network Roundtable at the University of Virginia, Rob Cross, Robert J. Thomas, and David A. Light, "Research Report: How Top Talent Uses Networks and Where Rising Stars Get Trapped," 2006.

[8] Taleo Research and Human Capital Institute, "U.S. Talent Intelligence Survey," 2010.

accomplishments and experience but all relevant accomplishments and experience. With access to in-depth profiles, you can better match talent to goals, and goals to strategic objectives.

Provide Visibility to Goal Alignment

How much do you know about what other teams are working on in your company? More importantly, can you identify which teams are working toward the same goals you are focused on? Unless you spend your days diligently networking across the organization, you might miss critical information about how to share resources toward common objectives. You might also lose an opportunity to leverage other people's work so your team doesn't waste cycles reinventing wheels.

Many leaders wish they had the time to network every day, but they have higher-priority work to do—product to deliver, clients to serve, and sales to close. What's needed is a toolset that helps process information and generate insights that you don't have time to develop manually. With talent intelligence, you can find other trams with shared goals and aligned goals at a glance, enabling you to quickly identify opportunities of collaboration as well as possible conflicts and duplicated effort. You can also easily monitor goal progress across your own team to see where you might need to intervene to ensure successful goal completion.

Enable Agile Goals

In many companies individual goals are created in conjunction with the annual performance review and then all but ignored until the next annual planning exercise. What this means in many companies is that official goals soon diverge from the real goals that employees are actively completing. Unfortunately, many of these real goals are assigned in a less rigorous way and often reflect short-term, tactical needs driven by the challenge of the moment.

What's required is a process that links individual goals to strategic company objectives while recognizing that goals are dynamic, malleable objects that must reflect changing business needs. Solutions that enable goals to be revisited and realigned on an ongoing basis, while still ensuring tight alignment with corporate objectives and robust tracking of progress and feedback, will help you balance your competing needs for flexibility and measurement.

Performance Reviews: Challenges and Solutions

How would you characterize the last performance review you either gave or received? Read the current literature on performance reviews and you'll see universal dissatisfaction. The review process tends to be a backward-looking exercise that documents what happened over the last year but does not provide meaningful, actionable feedback. In a recent study, 57 percent of employees either never had a

performance review or rated their most recent performance review as neutral to not useful.[9] Performance reviews tend to be driven by human resources (HR) department policy and approval procedures that focus on compliance and timelines rather than quality conversations between managers and employees.

Continuously Coach to Move Performance and the Business Forward

Whether paper-based or automated, the performance appraisal system is usually among the bottom-rated of HR systems,[10] and companies have trouble getting employees to use related products or tools. As a manager during the review cycle, you have to cobble together notes, e-mails, and your memories to come up with relevant performance data as the basis for employee reviews. Entering this information into a performance system that is used only once a year, has a terrible user interface, and requires two levels of approvals adds significant barriers to widespread adoption. It doesn't have to be this way.

One way to improve this process is to stop looking backward and start looking forward. Managing employee performance is a continuous process that happens as you collaborate on current projects and plan future ones. In your role as a leader, you provide coaching and feedback all year long. So why are you doing formal performance reviews annually? Why not do shorter, more-targeted sessions monthly or quarterly? More frequent feedback sessions provide additional opportunities for you to mentor and develop your team. It also means that you can help teams course-correct before they sail too far into uncharted waters.

Although a more frequent review sounds great in theory, it's often difficult to implement in practice. A key challenge for managers is the ability to capture feedback and thoughts about employee behavior as they happen. If leaders need to log in to a separate performance solution that is outside their workflows, it's far less likely that they will take the time to capture in-the-moment thoughts and feedback. Similarly, if they receive e-mails noting particularly strong or weak performance on a given project or initiative, leaders may not have the time or organizational prowess to capture that feedback in a way that they can leverage at the next performance review.

What leaders need are systems that enable them to capture their own feedback and the unsolicited feedback from colleagues within their core workflows. For some, this core work system is e-mail. For others, it's social or mobile platforms. If leaders can easily capture and store feedback from individuals via the e-mail client or through a mobile device, the ability to deliver more-frequent and more-targeted

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[9] Taleo Research, Alice Snell, "Research Survey Says: Revisit Your Performance Management Practices," February 2010.

[10] SuccessFactors and Workforce Intelligence Institute, Jac Fitzenz, "How Smart Human Capital Management Drives Financial Performance," March 8, 2008.

performance reviews moves from the realm of pie-in-the-sky theory to a practical key business driver. By enabling you to more frequently capture key information about your team within your everyday workflow, talent intelligence can transform the way you manage your team's performance.

Provide a Relevant Performance Review

Changing performance reviews from an annual activity to one of continuous coaching and development is one way to foster a high-performance team. Another way is to rethink the datasource for your performance review. In most performance review processes, the key datasource is you—the business leader giving the review. But it's not necessarily a smart move to use yourself as the primary datasource for reviews.

In many companies, employees don't just work for managers and leaders within their own business units or functions. They often work across organizational silos and sometimes across external company walls to collaborate with partners, suppliers, clients, and even the public. All these interactions and perspectives represent additional datasources that you should be capturing to support deeper insights and broader opinions regarding the contributions of your team. The people who have daily interactions with an employee are in the best position to provide meaningful feedback about that employee's performance. What specific feedback have you received about the way your employees contribute to the broader organization and the way they help other teams? How are you leveraging this feedback to improve the quality of your performance reviews?

Solutions that improve talent intelligence for performance reviews help you obtain a more complete picture of an individual by gathering relevant feedback throughout the year from across the employee's network. Tools that enable you to actively solicit feedback from an employee's peer group or across organizational silos help you evaluate core competencies and progress toward goals. Using these talent intelligence insights, you are better equipped to have meaningful conversations with your employees about their strengths and weaknesses during formal performance reviews. Further, giving your employees relevant data about their performance helps them take charge of their own personal development planning.

Compensation and Rewards: Challenges and Solutions

If you use financial incentives to motivate your employees, how do you know if the money you are spending on bonuses and rewards is producing results? Compensation can be a strategic management tool when used within a performance management framework. Because high performers can execute at levels four to six times higher than midperforming employees, many organizations compensate high performers more proportionally with regard to their contributions.

Studies show that high-performance companies have more employees with differentiated compensation and higher standard deviations in pay.[11] Performance reviews are often used to ensure that top performers get the bulk of the bonus pool, but unless the metrics are fair and consistent across the organization, you run the risk of demoralizing your team. Calibrating performance metrics ensures that your rating scale for performance is similar to those of the other line-of-business leaders in the organization. Your visibility into compensation bands and the relative position of your team against company averages can enable you to more effectively contribute to compensation discussions, particularly as a driver of engagement and retention.

Think Bigger on Compensation

Although it's true that you need to pay attention to prevailing market wages for key positions, it's equally true that compensation alone is a poor motivator of performance. Studies have shown that pay-for-performance compensation models improve work outcomes for routine algorithmic work, but for jobs that require creativity and innovation, pay-for-performance incentives can actually decrease innovation and productivity.[12] In fact, the key to improving engagement, motivation, and performance among knowledge workers is not more pay but more challenging assignments.

Five decades of research shows that the best way to engage knowledge workers and motivate higher performance is to provide more opportunities to develop mastery, learn new skills, and exercise autonomy. In other words, the best long-term strategy for improving performance is to provide new opportunities and new challenges through talent mobility and experiential development programs. Time-tested strategies such as job rotation, job sharing, mentoring, and action learning contribute not only to the continued development of team skills and competencies but also to the engagement and retention that enables organizations to tap into discretionary hours.

Your ability to match employee aspirations, strengths, and experiences to new and challenging assignments is critical to your ability to support these approaches. And a prerequisite to this is your ability to see the full talent profile and career plan for any individual, and the open positions, apprenticeships, and mentoring opportunities available to him or her.

Regardless of the incentive plans your company may adopt, as a leader you must still rely on providing employees with clear goals and expectations, quality feedback, and continuous coaching to keep them productively engaged.

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[11] Watson Wyatt, IBM, and Towers Perrin, "Rewards and Performance Management Challenges: Linking People and Results," January 2004; Bersin & Associates, Josh Bersin, "Enterprise Compensation Solutions: The Next Wave in Integrated Talent Management," January 12, 2009.

[12] Daniel Pink, *Drive: The Surprising Truth About What Motivates Us*, December 29, 2009.

Conclusion

With ever faster business cycles and a growing awareness of the value of talent to business success, business leaders are driving more core HR functions than ever before. The research validates that improved performance management through better business goal alignment, a shift from annual performance reviews to continuous coaching, and a modern view of compensation and rewards will lead to improved business results, while also fueling the careers of talent-focused leaders. The availability and quality of talent intelligence—employee data, insights, and decision-support tools—is the key enabler of business-led talent management.

As a business leader, you are an important stakeholder in decisions about talent management and have a vested interest in the related software solutions. Given your increasing role in critical talent management functions, it's only natural that you have more say in selecting solutions that address real business needs. Only a solution that provides real talent intelligence enables insight at the point of action so that you can overcome the performance management and compensation challenges you face.

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